Chapter 3
Market Demand, Supply and Elasticity

Multiple Choice Questions

Choose the one alternative that best completes the statement or answers the question.

1. Ceteris paribus means
   (a) “other things are known to change.”
   (b) “other equal things remain to change.”
   (c) “other things being equal.”
   (d) “other things change equally.”
   (e) None of the above.
   Answer: C

2. Which of the following is correct? Ceteris paribus, the demand curve
   (a) shows that quantity demanded falls as price falls at any given time.
   (b) shows that quantity demanded rises when price falls.
   (c) is an upward-sloping curve.
   (d) shifts to the right when the price drops.
   (e) shows that quantity demanded falls as income falls.
   Answer: B

3. The demand curve is downward-sloping because
   (a) as income rises people spend less.
   (b) when the price of something decreases, people substitute other goods for it.
   (c) a higher price brings in more buyers.
   (d) the demand curve is not downward-sloping; it is upward-sloping.
   (e) None of the above.
   Answer: E

4. The number of personal computers sold annually in the United States has increased at a rapid rate. The price of personal computers has fallen. The rise in sales due to the lower price is called
   (a) an increase in quantity demanded.
   (b) an increase in quantity supplied.
   (c) an increase in demand.
   (d) an increase in supply.
   (e) an inferior good.
   Answer: A
5. A decrease in the quantity demanded of a product occurs when
   (a) the price of the product falls.
   (b) the price of a substitute for the product rises.
   (c) the price of a complement for the product falls.
   (d) the price of the product rises.
   (e) income increases.
   Answer: D

Table 3.1

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6. The data in Table 3.1 show the supply and demand curves for *Essentials of Economics* textbooks. According to the data, at a price of $4
   (a) there is an excess supply of textbooks.
   (b) there is a shortage of textbooks.
   (c) the quantity supplied exceeds the quantity demanded by 7 units.
   (d) supply and demand are in equilibrium.
   (e) students will be able to purchase 14 textbooks.
   Answer: B

7. The data in Table 3.1 show the supply and demand curves for *Essentials of Economics* textbooks. According to the data, at a price of $6,
   (a) supply and demand are in equilibrium.
   (b) there is no excess demand.
   (c) there is no excess supply.
   (d) the quantity supplied equals the quantity demanded.
   (e) All of the above.
   Answer: E

8. The data in Table 3.1 show the supply and demand curves for *Essentials of Economics* textbooks. If the quantity demanded at $6 changes from 10 units to 14 units,
   (a) there has been an increase in supply.
   (b) the price of used textbooks must have fallen.
   (c) there has been an increase in demand.
   (d) there has been an increase in the quantity demanded.
   (e) students must have experienced a decrease in income.
   Answer: C
9. Two explanations for the law of demand are
   (a) price and quantity effects.
   (b) substitution and income effects.
   (c) opportunity cost and substitution effects.
   (d) substitutes and inferior goods.
   (e) None of the above.
   Answer: B

10. An increase in demand, ceteris paribus, will usually cause
    (a) a decrease in quantity demanded.
    (b) an increase in quantity supplied.
    (c) an increase in supply.
    (d) a higher quantity and a lower price.
    (e) an increase in supply.
    Answer: B

11. The quantity demanded of a product rises whenever
    (a) the product’s price falls.
    (b) incomes increase.
    (c) population increases.
    (d) the prices of substitute goods rise.
    (e) consumer tastes and preferences change.
    Answer: A

12. An increase in the number of firms selling pizza will cause, ceteris paribus,
    (a) an increase in supply.
    (b) an increase in demand.
    (c) an increase in the equilibrium price of pizza.
    (d) a decrease in quantity demanded.
    (e) a decrease in the quantity supplied.
    Answer: A

13. Economists make the distinction between an increase in quantity demanded and an increase in demand
    (a) because the supply curve shifts whenever there is an increase in quantity demanded.
    (b) economists are only useful if no one else understands our jargon.
    (c) because the demand curve shifts when there is an increase in quantity demanded.
    (d) because the demand curve stays the same whenever there is an increase in demand.
    (e) to distinguish between those situations in which consumers purchase more of the good as price falls
        and those in situations in which consumers purchase more of the good at all possible prices.
    Answer: E
14. An increase in the demand for wheat occurring at the same time as an increase in the supply of wheat
   (a) must increase the price of wheat.
   (b) must reduce the price of wheat and the quantity of wheat sold.
   (c) must reduce the quantity of wheat sold.
   (d) must increase the quantity of wheat sold.
   (e) may increase or decrease the price of wheat but must reduce the quantity of wheat sold.
   Answer: D

15. If the price of cable TV service is set below the equilibrium price by government action,
   (a) there will be a surplus of cable TV service.
   (b) there will be a shortage of cable TV service.
   (c) all buyers will be able to purchase their desired quantities.
   (d) sellers will find it difficult to find willing buyers.
   (e) market equilibrium will occur in spite of government regulation.
   Answer: B

16. The law of demand states that when price falls, quantity demanded
   (a) rises under all circumstances.
   (b) falls under all circumstances.
   (c) rises provided prices of related goods, consumer preferences, and consumer incomes do not change.
   (d) falls, ceteris paribus.
   (e) rises for most goods, but does not change for necessities like water.
   Answer: C

17. Which of the following is correct? The demand curve will shift when
   (a) income, preferences, or the number of suppliers changes.
   (b) income, preferences, or the number of buyers changes.
   (c) income, preferences, or production technology changes.
   (d) the number of suppliers and number of buyers changes.
   (e) production technology and factor prices change.
   Answer: B

18. When the price of beef falls ceteris paribus, the quantity of beef demanded increases because
   (a) beef is better than pork.
   (b) beef buyers are not sensitive to price changes.
   (c) people feel richer and buy more of everything.
   (d) ranchers need the extra business.
   (e) there are no dietary substitutes for beef.
   Answer: C
19. Where the demand curve intersects the supply curve
   (a) the price and quantity are in equilibrium.
   (b) consumers are willing to buy what sellers are willing to sell.
   (c) there is no shortage of the good.
   (d) the price will neither rise nor fall until something else changes.
   (e) All of the above.
   Answer: E

20. The equilibrium price rises when
   (a) there is an increase in supply, ceteris paribus.
   (b) there is a decrease in quantity demanded, ceteris paribus.
   (c) there is an increase in demand, ceteris paribus.
   (d) there is a decrease in quantity supplied, ceteris paribus.
   Answer: C

21. If the demand for vacuum cleaners increases due to an increase in population, and if, at the same
time, decreases in factor prices cause the supply of vacuum cleaners to increase, the equilibrium
quantity of vacuum cleaners will
   (a) rise.
   (b) fall.
   (c) remain the same.
   (d) be impossible to forecast from the information given.
   Answer: A

22. If there is a surplus of oil on the world market,
   (a) oil is no longer scarce.
   (b) at the prevailing price, the quantity demanded exceeds the quantity supplied.
   (c) at the prevailing price, the quantity supplied exceeds the quantity demanded.
   (d) the quantity supplied equals the quantity demanded.
   (e) many OPEC oil ministers will lose their jobs.
   Answer: C

23. The demand curve is downward-sloping because at a higher price for a good (ceteris paribus)
   (a) people buy fewer substitutes.
   (b) people buy more complements.
   (c) people search for substitutes.
   (d) income rises.
   (e) substitutes become complements.
   Answer: C

24. The supply curve is upward-sloping because at higher prices for a good
   (a) consumers search out more substitutes.
   (b) consumer income increases.
   (c) firms cannot sell as much.
   (d) demand is lower.
   (e) None of the above.
   Answer: E
25. Factors held constant along the supply curve include
   (a) technology only.
   (b) technology and factor prices.
   (c) other prices and the number of buyers only.
   (d) the number of sellers and consumer incomes.
   Answer: B

26. When the supply of coffee falls and the demand for coffee increases due to an increase in the preference for coffee, the price of coffee will
   (a) initially rise and then fall as supply rises with the rise in price.
   (b) either rise or fall.
   (c) rise.
   (d) first rise and then fall as demand falls with the rise in price.
   (e) fall.
   Answer: C

27. In the market for soybeans, an excess demand will occur if
   (a) corn is made illegal and soybean prices adjust quickly.
   (b) the price of soybeans is supported by government purchases.
   (c) the price of soybeans is too low for equilibrium.
   (d) the price of soybeans is too high for equilibrium.
   (e) the government sets a price above equilibrium.
   Answer: C

28. If the factors held constant along a supply or demand curve change,
   (a) the equilibrium may change.
   (b) the demand and supply equilibrium may be disrupted.
   (c) the supply or demand curve may shift.
   (d) a new equilibrium price can be established.
   (e) All of the above.
   Answer: E

29. If the price of crackers goes up when the price of cheese goes down, crackers and cheese are
   (a) inferior goods.
   (b) substitutes.
   (c) both substitutes and complements.
   (d) complements.
   (e) normal goods.
   Answer: D

30. An increase in supply will typically
   (a) cause an increase in demand.
   (b) raise the price, ceteris paribus.
   (c) lower the price, ceteris paribus.
   (d) leave the price unchanged due to the increase in demand.
   (e) cause a reduction in quantity demanded.
   Answer: C
31. The equilibrium quantity must fall when
   (a) there is a decrease in demand.
   (b) there is a decrease in supply.
   (c) there is an increase in price.
   (d) there is an increase in demand and supply.
   (e) there is a decrease in demand and supply.
   Answer: A

32. If the price of a good is kept above equilibrium by government controls and regulations,
   (a) there will be an excess supply of the good.
   (b) there will be a shortage of the good.
   (c) not all those willing to pay the post-regulation price will be able to purchase the good.
   (d) the good will no longer be scarce.
   (e) producers will be unable to keep up with consumer demand for the good.
   Answer: A

33. An increase in demand means that
   (a) more will be demanded at a lower price than before.
   (b) less will be demanded at a higher price than before.
   (c) less will be demanded at the same price as before.
   (d) more will be demanded at the same price as before.
   (e) lower prices prevail.
   Answer: D

34. An increase in the quantity demanded of professional football tickets occurs when
   (a) a reduction in price causes the number of tickets sold to increase.
   (b) an increase in price causes the number of tickets sold to decrease.
   (c) incomes of professional football fans rises.
   (d) football’s popularity as a professional sport rises.
   (e) the price of professional basketball tickets falls.
   Answer: A

35. The demand curve will shift to the left for most consumer goods when
   (a) incomes decrease.
   (b) the prices of substitutes fall.
   (c) the prices of complements increase.
   (d) the number of buyers falls.
   (e) All of the above.
   Answer: E

36. One reason quantity demanded increases as the price of a good falls (ceteris paribus) is that
   (a) people think the price will fall lower yet.
   (b) people feel sorry for the firms selling the product.
   (c) people substitute more expensive goods for the now cheaper good.
   (d) price reductions release income to be spent on all goods.
   (e) people know that supply will increase.
   Answer: D
37. Which of the following is correct? The supply curve assumes that _____ remain constant.
   (a) income, consumer preferences, the number of suppliers
   (b) factor prices, technology, the number of producers
   (c) income, consumer preferences, technology
   (d) the number of suppliers, population, the economic climate
   (e) the price of the good, technology, consumer preferences
   Answer: B

38. Bad harvests of corn often cause an increase in the price of corn because
   (a) supply creates its own demand.
   (b) the supply curve shifts to the right.
   (c) the supply curve shifts to the left.
   (d) the demand curve shifts.
   (e) the quantity supplied falls.
   Answer: C

39. Airline tickets and luggage are complements if
   (a) the demand for luggage increases when the price of airline tickets falls.
   (b) the demand for luggage increases when the price of airline tickets rises.
   (c) the supply of luggage increases when the price of airline tickets rises.
   (d) the demand for luggage and airline tickets rise and fall together.
   (e) the demand curves of both goods shift when their respective supply curves shift.
   Answer: A

40. If the demand curve for a product shifts to the right,
   (a) the price will be higher at the new equilibrium.
   (b) the quantity supplied will be higher at the new equilibrium.
   (c) there will be no change in the supply curve.
   (d) price and quantity will move in the same direction.
   (e) All of the above.
   Answer: E

41. The equilibrium price is
   (a) that price where quantity demanded equals quantity supplied.
   (b) established when consumer and business decisions are coordinated.
   (c) achieved when there is no excess supply or excess demand.
   (d) achieved when there are no forces tending to raise or lower price.
   (e) All of the above.
   Answer: E

42. Which of the following events is least likely to shift the demand curve for video games?
   (a) The prices of board games fall.
   (b) The number of suppliers of video games increases.
   (c) People change their beliefs about the future prices of video games.
   (d) The price of televisions fall.
   (e) Average income falls as the economy goes into a recession.
   Answer: B
43. In a market with flexible prices, a decrease in demand causes the price to fall and
   (a) the supply to fall.
   (b) a surplus due to excess supply.
   (c) the quantity supplied to fall.
   (d) equilibrium supply to fall.
   Answer: C

44. Consider the market for soft drinks. If the U.S. Surgeon General publishes a report that carbonated beverages have been linked to cancer of the sweet tooth, it is most likely that
   (a) the supply curve of soft drinks will shift to the right.
   (b) the supply curve of soft drinks will shift to the left.
   (c) the demand curve for soft drinks will shift to the right.
   (d) the demand curve for soft drinks will shift to the left.
   (e) the incomes of cancer specialists will rise in the future.
   Answer: D

45. At a price of $1,000 in Figure 3.1, price is too low for equilibrium to occur in the market for personal computers. What this means is that
   (a) purchasers wish to buy more personal computers than manufacturers wish to sell.
   (b) the price of personal computers will fall because of unsold personal computers.
   (c) consumer incomes are too low to take the available supply of personal computers off the market.
   (d) manufacturers wish to sell more personal computers than purchasers wish to buy.
   (e) government policy to limit Japanese semiconductor sales in the United States would help manufacturers of personal computers.
   Answer: A

46. An increase in the cost of computer memory chips will _____ the equilibrium price and _____ the equilibrium quantity of personal computers.
   (a) increase; decrease
   (b) increase; increase
   (c) decrease; decrease
   (d) decrease; increase
   Answer: A
47. A decrease in the cost of computer software will _____ the equilibrium price and _____ the equilibrium quantity of personal computers.
   (a) increase; decrease
   (b) increase; increase
   (c) decrease; decrease
   (d) decrease; increase
   Answer: B

48. An increase in the mortgage rate on the average home loan will _____ the equilibrium price and _____ the equilibrium quantity of housing.
   (a) increase; increase
   (b) increase; decrease
   (c) decrease; decrease
   (d) decrease; increase
   Answer: C

49. If improved instruction makes snowboarding easier to learn, the equilibrium price of snowboards will _____ and the equilibrium quantity will _____.
   (a) increase; increase
   (b) increase; decrease
   (c) decrease; increase
   (d) decrease; decrease
   Answer: A

50. An increase in the cost of lift tickets will _____ the equilibrium price and _____ the equilibrium quantity of snowboards.
   (a) increase; increase
   (b) increase; decrease
   (c) decrease; increase
   (d) decrease; decrease
   Answer: D

51. If the price of beer increases, the equilibrium price of wine will _____ and the equilibrium quantity will _____.
   (a) increase; increase
   (b) increase; decrease
   (c) decrease; increase
   (d) decrease; decrease
   Answer: A

52. If the cost of oak barrels used to produce wine falls, the equilibrium price of wine will _____ and the equilibrium quantity will _____.
   (a) increase; increase
   (b) increase; decrease
   (c) decrease; increase
   (d) decrease; decrease
   Answer: C
53. The conversion of several large apartment buildings to condominiums will _____ the equilibrium price and _____ the equilibrium quantity of apartments rented by students.
   (a) increase; increase  
   (b) increase; decrease  
   (c) decrease; decrease  
   (d) decrease; increase  
   Answer: B

54. An increase in dormitory fees will _____ the equilibrium price and _____ the equilibrium quantity of apartments rented by students.
   (a) increase; increase  
   (b) increase; decrease  
   (c) decrease; decrease  
   (d) decrease; increase  
   Answer: A

55. New scientific evidence that indicates regular exercise improves resistance to the common cold and heart disease will _____ the equilibrium price and _____ the equilibrium quantity of health club memberships.
   (a) increase; decrease  
   (b) increase; increase  
   (c) decrease; decrease  
   (d) decrease; increase  
   Answer: B

56. A labor shortage of qualified fitness instructors that increases their wage rates will _____ the equilibrium price and _____ the equilibrium quantity of health club memberships.
   (a) increase; decrease  
   (b) increase; increase  
   (c) decrease; decrease  
   (d) decrease; increase  
   Answer: A

Table 3.2

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57. Which of the following statements would best explain the data in Table 3.2 on the price and consumption of coffee?
   (a) A decrease in the price of tea caused consumers to drink more coffee.  
   (b) Favorable weather in three successive years increased coffee yields in Brazil.  
   (c) Coffee is a normal good since real income increased between 1999 and 2001.  
   (d) The supply curve for coffee is downward sloped since price and quantity supplied move in the opposite direction.  
   (e) An increase in wage rates of coffee bean pickers occurred from 1999 to 2001.  
   Answer: B
Table 3.3

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58. Table 3.3 shows a hypothetical demand curve for tickets to a basketball game at a small public university. The field house has a maximum capacity of 8300 seats. If the Athletic Department announces a price of $10.00, how many tickets would go unsold?
(a) 1800
(b) 2550
(c) 4500
(d) 5750
(e) 1950
Answer: B

59. Table 3.3 shows a hypothetical demand curve for tickets to a basketball game at a small public university. The field house has a maximum capacity of 8300. Which of the following prices is the highest price that would ensure a sellout crowd?
(a) $7.00
(b) $5.00
(c) $4.00
(d) $8.00
(e) $6.00
Answer: E

60. Table 3.3 shows a hypothetical demand curve for tickets to a basketball game at a small public university. The field house has a maximum capacity of 8300 seats. Suppose a maximum price of $8.00 per ticket is established. Tickets can be sold at prices of $8.00 or less. Which of the following is true?
(a) A lottery system would be necessary to allocate tickets.
(b) There would be excess demand of 1050 tickets.
(c) Without restrictions some ticket holders would find scalping profitable.
(d) The Athletic Department could still sell all 8300 tickets.
Answer: D
61. Which figure above describes the Athletic Department’s supply curve if it will sell each ticket (up to 8300) at a price of $10.00?
(a) Figure A
(b) Figure B
(c) Figure C
(d) Figure D
(e) Figure E
Answer: A

62. During a Cubs/Dodgers broadcast from Los Angeles on Sunday, Vin Scully noted that the day’s attendance of roughly 35,000 was substantially less than the Dodgers’ average of 42,000. Vin commented that Sunday was a popular day to go to the beach and the producer noted that Hollywood Park has (horse) racing on Sunday afternoon. A day at the ball park, a day at the beach and day at the races are
(a) normal goods.
(b) complementary goods.
(c) three movies made by the Marx brothers.
(d) goods that have no economic relationship to each other.
(e) substitute goods.
Answer: E

63. Assume that the demand curve for new cars is downward sloping. Which of the following is correct? An increase in the price of new cars would result in
(a) a decrease in demand for used cars.
(b) a smaller quantity of new cars demanded.
(c) a smaller quantity of new cars supplied.
(d) a decrease in the demand for new cars.
(e) an increase in the supply of new cars.
Answer: B
64. In the market for domestic gasoline, which of the following would be most likely to cause an increase in the demand for gasoline?
   (a) A decline in the price of domestic gasoline.
   (b) An increase in the price of diesel fuel.
   (c) An increase in the price of luxury cars.
   (d) A decrease in public transit fares.
   (e) An increase in other costs of operating an automobile (insurance and maintenance).
   Answer: B

**Table 3.4**

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65. Table 3.4 shows a hypothetical demand curve for tickets to a basketball game at a small public university. The field house has a maximum capacity of 8300 seats. If the Athletic Department announces a price of $10.00, how many tickets would go unsold?
   (a) 3750
   (b) 2550
   (c) 6500
   (d) 1800
   (e) 1950
   Answer: D

66. Table 3.4 shows a hypothetical demand curve for tickets to a basketball game at a small public university. The field house has a maximum capacity of 8300 seats. Which of the following prices is the highest price that would ensure a sellout crowd?
   (a) $9.00
   (b) $7.00
   (c) $5.00
   (d) $6.00
   (e) $8.00
   Answer: B

67. Table 3.4 shows a hypothetical demand curve for tickets to a basketball game at a small public university. The field house has a maximum capacity of 8300 seats. Suppose a maximum price of $8.00 per ticket is established. Tickets can be sold at prices of $8.00 or less. Which of the following is true?
   (a) The maximum price would have no economic effect since it is above the equilibrium price of tickets.
   (b) A non-price rationing system, such as first-come first-served, must be instituted along with the maximum price.
   (c) All 8300 ticket-holders would be willing to pay the maximum price.
   (d) There would be excess demand of 300 tickets.
   Answer: A
68. Which figure above describes the Athletic Department’s supply curve if it will sell no more than 8300 tickets, irrespective of price?
   (a) Figure A  
   (b) Figure B  
   (c) Figure C  
   (d) Figure D  
   (e) Figure E

   Answer: E

69. Which of the following is not a determinant of price elasticity of demand?
   (a) The availability of substitutes.
   (b) The availability of disposable income.
   (c) The relative importance of the good in the budget.
   (d) The amount of time required to adjust the budget.
   (e) All of the above.

   Answer: B

70. If the price elasticity of demand for airline tickets is –0.5, then
   (a) the demand curve is elastic.
   (b) the supply curve is elastic.
   (c) the demand curve is unitary elastic.
   (d) the demand curve is inelastic.
   (e) the supply curve is inelastic.

   Answer: D
71. If the percentage increase in the price is greater than the percentage change in the quantity demanded, then
   (a) the price elasticity of demand is greater than 1 and demand is elastic.
   (b) the price elasticity of demand is greater than 1 and demand is inelastic.
   (c) the price elasticity of demand is equal to 1 and demand is unitary elastic.
   (d) the price elasticity of demand is less than 1 and demand is elastic.
   (e) the price elasticity of demand is less than 1 and demand is inelastic.
   Answer: E

72. If the price elasticity of demand for furniture is 1.3, then
   (a) the demand curve is elastic.
   (b) the supply curve is elastic.
   (c) the demand curve is unitary elastic.
   (d) the demand curve is inelastic.
   (e) the supply curve is inelastic.
   Answer: A

73. A 15 percentage increase in the price of a T-shirt which leads to a 13 percent decrease in the quantity demanded for T-shirts means that
   (a) the demand curve is elastic.
   (b) the supply curve is elastic.
   (c) the demand curve is unitary elastic.
   (d) the demand curve is inelastic.
   (e) the supply curve is inelastic.
   Answer: D

74. If the demand curve is relatively inelastic and the supply curve is relatively elastic, an increase in income would lead to a
   (a) greater increase in the price than in the quantity.
   (b) smaller increase in the price than in the quantity.
   (c) greater increase in the quantity demanded than the quantity supplied.
   (d) smaller increase in the quantity supplied than in the quantity demanded.
   (e) None of the above.
   Answer: B

75. If the price elasticity of demand for smoking cigarettes is inelastic in the short-run but elastic in the long-run, then a significant increase in taxes on cigarettes will cause
   (a) smokers to cut back very little in the short-run.
   (b) smokers to cut back considerably in the short-run but not the long-run.
   (c) smokers to cut back very little in the short- and long-run.
   (d) smokers to cut back considerably in the short- and long-run.
   (e) None of the above.
   Answer: A
76. When cigarettes have a relatively inelastic demand curve in the short-run,
   (a) cigarette companies bear more of the burden of the tax.
   (b) cigarette smokers bear most of the burden of the tax.
   (c) cigarette smokers and companies equally share the burden of the tax.
   (d) smokers bear the full burden of the tax.
   (e) cigarette companies bear the full burden of the tax.
   Answer: B

77. When cigarettes have a relatively elastic long-run price elasticity of demand,
   (a) cigarette companies bear most of the burden of the tax.
   (b) cigarette smokers bear most of the burden of the tax.
   (c) cigarette smokers and companies equally share the burden of the tax.
   (d) smokers bear the full burden of the tax.
   (e) cigarette companies bear the full burden of the tax.
   Answer: A

78. If the price elasticity of supply for roses is 1.7, then
   (a) the demand curve is elastic.
   (b) the supply curve is elastic.
   (c) the demand curve is unitary elastic.
   (d) the demand curve is inelastic.
   (e) the supply curve is inelastic.
   Answer: B

79. If the price elasticity of supply for milk is 0.7, then
   (a) the demand curve is elastic.
   (b) the supply curve is elastic.
   (c) the demand curve is unitary elastic.
   (d) the demand curve is inelastic.
   (e) the supply curve is inelastic.
   Answer: E